

DEPARTMENT OF CORRECTIONS
PASTORE GOVERNMENT CENTER TELECOMMUNICATIONS
INTERNAL SERVICE FUND
PERFORMANCE AUDIT
APRIL 2002

DEPARTMENT OF ADMINISTRATION
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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EXECUTIVE SUMMARY

The Department of Corrections needs to strengthen controls to help ensure that appropriate amounts are charged to agencies for the use of the Pastore Center Telecommunications system through the internal service fund. This is necessary for the fund to meet its financial objectives and for the user agencies to be able to properly account for and manage their costs. The internal call system should be reviewed to determine why there are differences from the provider invoices and then the billings to user agencies should be periodically tested. All appropriate amounts in the fund should be charged to the user agencies and there should be enhanced coordination with the Office of Library and Information Services. All efforts should be made to avoid service charges for late payments to telephone providers.

Controls should also be strengthened over the billing and collection of monies due to the state relative to the Administrative and Pay Telecommunications contract with Avaya, Inc.

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April 25, 2002

Asbel T. Wall II, Director
Department of Corrections
40 Howard Avenue
Cranston, RI 02920

Dear Mr. Wall:

We have completed our performance audit of the Department of Corrections, Pastore Center Telecommunications Internal Service Fund. Our audit was conducted in accordance with Sections 35-7-3 and 35-7-4 of the Rhode Island General Laws.

The findings and recommendations included herein have been discussed with management and we have considered their comments in the preparation of our report. Management's responses to our recommendations are included in this report.

In accordance with Section 35-7-4 of the General Laws, we will review the status of the Department of Corrections, Pastore Center Telecommunications Internal Service Fund corrective action plan within 6 months from the date of issue of this report.

Sincerely,

Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits

SMC:pp

DEPARTMENT OF CORRECTIONS
PASTORE GOVERNMENT CENTER TELECOMMUNICATIONS
INTERNAL SERVICE FUND
PERFORMANCE AUDIT
APRIL 2002

INTRODUCTION

Objectives, Scope, and Methodology

We have conducted a performance audit of the Department of Corrections, Pastore Government Center Telecommunications, Internal Service Fund for the fiscal year ended June 30, 2001 and the period July 1, 2001 through January 31, 2002. Our objectives were to evaluate the adequacy and effectiveness of managerial controls, the economy of resources, and compliance with significant laws and regulations applicable to the program. Our audit was made in accordance with *The Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditing.

To accomplish our objectives, we obtained an understanding of the program procedures for calculating billing rates, billing to user agencies, and fund expenditures to ascertain whether the results were consistent with the goals and objectives of the program and were carried out as planned. We also reviewed the reliability and integrity of financial and operating information. We interviewed responsible personnel, performed tests of the accounting records and other such auditing procedures, as we considered necessary in the circumstances.

The findings and recommendations included herein have been discussed with management, and we have considered their comments in the preparation of our report.

Background

Internal Service Funds are established under provisions of RIGL 35-5-1 to finance and account for services and commodities furnished by a designated agency to other agencies or departments, under a vendor-customer relationship. Section A-20 of the Department of Administration's Procedural Handbook outlines the duties and responsibilities of operating an internal service fund. The Director of Administration has delegated expenditure and billing authority for the Pastore Center Telephone operations, which is part of the Department of Administration's Central Services Fund to the Department of Corrections and the department, works with the telecommunications section of the Office of Library and Information Services. The Department of Corrections pays the telephone charges incurred for the entire Pastore Government Center and bills the other agencies located at the Pastore Government Center for each agency's share of the telephone costs. The Department of Corrections maintains an in-house tracking system that computes the costs for each telephone call and then allocates the costs to the appropriate appropriation account.

The system being used for the Pastore Center Telephone operations is based on an agreement between the State of Rhode Island and Lucent Technologies, Inc., dated July 31, 1997 that provided for Lucent Technologies to install an administrative and inmate telecommunications system at no cost to the State and for Lucent to be reimbursed for the equipment through surcharges on calls made by the inmates. Section 3.C of the contract requires that Lucent pay the State \$117,500 per quarter for a ten year period, starting August 1, 1997. The affiliate of Lucent Technologies that is responsible for this contract is now called Avaya, Inc.

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PASTORE GOVERNMENT CENTER TELECOMMUNICATIONS
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FINDINGS AND RECOMMENDATIONS

Billing/Charges to User Agencies

All outgoing telephone calls are tracked by the Department of Corrections (DOC) and are billed monthly to the various providers within the Pastore Government Center Telephone System. The amount billed includes the amount based on usage, the provider's tariff, an allocation of administration and any adjustments. We were advised that the adjustments represent the difference between total usage generated by DOC's internal records and invoices submitted by telephone service providers. Although DOC attributes these adjustments as a "rate mismatch" in their database, DOC does not reconcile its database to the service providers invoices.

For the fiscal year ended June 30, 2001 our review of the Pastore Telephone Operations Account showed transactions totaling \$49,931.27 were not billed and charged to the user agencies. Discussions with DOC indicated that \$4,259.60 should have been charged and will be in subsequent billings. The remaining \$45,671.87 represented items approved by the Office of Library and Information Services (OLIS) and charged directly to the operations account and which DOC informed they had requested additional documentation and justification from OLIS. We reviewed these charges with OLIS and saw correspondence from the provider stating that the charges were for maintenance after the first year warranty expired and other billable items added to the original agreement. It is important that all the appropriate charges be made to the user agencies of the fund to meet its financial obligations as required by Section A-20 of the Department of Administration's Procedural Handbook which requires that the fund meet its financial objectives and to recover all costs of operations without profit or loss.

Additionally, the user agencies are utilizing a large amount of federal as well as some restricted funds for the charges so undercharging these accounts is putting the burden on state funds.

A summary of fiscal operations and the fund deficit for the fiscal year ended June 30, 2001 is shown as follows:

Revenues	\$ 755,705
Expenses	914,174
Net Income/Loss	(158,470)
Fund Equity (Deficit) July 1, 2000	<u>(51,786)</u>
Fund Equity (Deficit) June 30, 2001	\$ (210,255)

Recommendations

1. Review the internal call system and attempt to determine why there are differences with the vendor invoices and make any necessary adjustments.
2. Compare information from the call accounting system to the provider billing detail on an ongoing test basis to ensure its reliability.
3. Ensure that all appropriate amounts are charged to the user agencies and make efforts to eliminate the fund deficit.
4. Coordinate with OLIS to ensure that there are no areas of uncertainty regarding any direct charges made to the telephone accounts.

Service Fees

The Pastore Center telephone internal service fund is consistently incurring service fees for late payments to telephone service providers that are passed on to the user agencies. This was due, in part, to the Department of Corrections personnel not being able to approve payments until September 2001 due to the lack of access to the new accounting system. The state is liable for late payment charges payable to public utility providers regulated by the Public Utility Commission. The Office of Accounts and Control has requested that all state departments make every effort to expedite these payments in order to avoid any unnecessary late payment charges.

Recommendation

5. Make every effort to avoid unnecessary late payment charges to utility companies.

Administrative and Inmate Pay Telecommunications Contract

The contract between Avaya, Inc., formerly Lucent Technologies and the state requires the Avaya, Inc., to make quarterly payments of \$117,500 to the state. At the inception of our audit the Department of Corrections (DOC) only had collected monies for the contract period August 1, 1997 through July 31, 2000, and only one additional quarterly billing had been made after this period. Nor further action had been taken by the DOC to determine the status of this billing or to submit any subsequent billings until our audit was in progress. The delay in billings and lack of follow-up appears to have been caused by changes in personnel and lack of effective controls to ensure that appropriate procedures were followed.

After DOC performed additional billings and follow-up during our audit the status of the Avaya, Inc., contract with the state is as follows:

<u>Status of Contract-August 1, 2000 through January 31, 2002</u>			
Period 8/1/00-7/31/01:	Receivable	Payments	Due
8/1/00-10/31/00	117,500	0	117,500
11/1/00-1/31/01	117,500	117,500	0
2/1/01-4/30/01	117,500	117,500	0
5/1/01-7/31/01	117,500	117,500	0
Period 8/1/01-7/31/02:			
8/1/01-10/31/01	117,500	117,500	0
11/1/01-1/31/02	<u>117,500</u>	<u>0</u>	<u>117,500</u>
TOTAL	<u>705,000</u>	<u>470,000</u>	<u>235,000</u>

Section A-16 of the Department of Administration's Procedural Handbook states that "All departments, divisions, and agencies are required to maintain a record of each accounts receivable. Accounts Receivable records should be accurate, complete, and maintained in a manner to indicate the length of time the debt has been outstanding." It also states, "Each department and agency that has accounts receivable establish collection policies and procedures that prevent an account from becoming delinquent."

Recommendation

6. Strengthen controls to ensure that they are adequate and effective, so that monies due the State are billed and collected in accordance with State procedures and contractual agreements.



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April 19, 2002

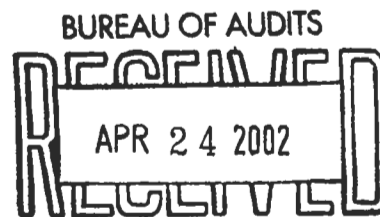
Stephen M. Cooper, CFE, CGFM
Chief, Bureau of Audits
RI Department of Administration
One Capitol Hill
Providence, RI 02908-5889

Dear Mr. Cooper:

I am responding to your letter of April 4, 2002 concerning the performance audit of Pastore Government Center Telephone Operations Internal Service Fund. I appreciate your units having performed the performance audit. Our Department considers such audits to be a valuable tool for improving our service delivery. Responses to specific findings and recommendations follow on the next page.

Sincerely,

Ashbel T. Wall II
Director of Corrections



C: Richard Frechette
James F. Berard

Recommendation #1: *Review the internal call system and attempt to determine why there are differences between vendor invoices and make any necessary adjustments.*

Response to Recommendation #1: Partially Accepted

We are already aware of some of the major causes for difference between the call accounting system's total of chargeable calls, and the vendors' invoices:

1. The vendors' invoice periods are not consistent. We have been unsuccessful in our attempts to get the individual vendors (Verizon, AT&T and Quest) to adjust their billing cycle for us. Hence, we have established our cycle to coincide with the largest volume vendor – Verizon.
2. The vendors have inconsistent methods of treating matters factors such as minute rounding.
3. Our internal system is not sophisticated enough to adjust for mid-billing cycle rate changes.

The report of chargeable calls will always be an approximation - not an exact reflection – of the vendor invoices. As far as the telephone service providers are concerned, all calls generating from the Pastore Center are identified as calls from one telephone number associated with the switch. On this side of the switch, we use internal equipment to identify the actual extension to which a specific call is associated. Our staff also builds in to the call accounting system the current approved rates for local and long distance services.

The difference between the invoices and total of direct charges calculated in our call accounting system are prorated as overhead credit or debit (in the same way as central management costs) to each participating extension/account based upon usage during that period.

That having been said, we recognize that the amount of difference in each month seems to be beyond that justifiable by the above factors. We will be contracting with a firm to examine the call accounting system and determine whether the differences are a result of procedural errors or internal system problems (or both), and to recommend courses of action. The consultant will be hired in July 2002, and we expect to have taken recommended courses of action by December 31, 2002.

Recommendation #2: *Compare information from the call accounting system to the provider billing detail on an ongoing test basis to ensure its reliability.*

Response to Recommendation #2: Accepted.

We have created a new position – Assistant Business Management Officer – to be dedicated to the telecommunications unit fiscal operations. This person will have the responsibility of performing such review and notifying the Techs of any discrepancies. The person's date of hire is May 6, 2002.

Recommendation #3: *Ensure that all appropriate amounts are charged to the user agencies and make efforts to eliminate the fund deficit.*

Response to Recommendation #3: Accepted.

The fiscal position cited in #3 will be responsible for examining and validating all charges against the Internal Services Fund, determining (in concert with the chief of the telecommunications unit) whether the expenditure is attributable to specific accounts or is chargeable as distributable overhead, and for including all these charges in the monthly billing to user agencies.

Recommendation #4: *Coordinate with OLIS to ensure that there are no areas of uncertainty regarding any direct charges made to the telephone accounts.*

Response to Recommendation #4: Accepted.

Since the initial audit review we have already worked with OLIS to establish procedures whereby DOC is notified immediately of any charges to be placed against the ISF by OLIS. Questions and/or disagreements will be resolved immediately.

Recommendation #5: *Make every effort to avoid unnecessary late payment charges to utility companies.*

Response to Recommendation #5: Accepted.

The vendors' invoices almost always contain items that require adjustments. We used to hold the invoices to address these matters. However, we have already modified our procedures so that the invoices are either processed as paid-in-full or "short-paid" within a timeframe to allow for checks to go out within the "prompt payment" regulations – asking the vendors to address adjustments in the subsequent invoices.

Recommendation #6: *Strengthen controls to ensure that they are adequate and effective, so that monies due the State are billed and collected in accordance with State procedures and contractual agreements.*

Response to Recommendation #6: Partially Accepted

We believe we have a reasonable system in place for billing. Immediately at the end of each quarter, we send the vendor (Avaya) an invoice for \$117,500, and include with that invoice a

statement of any past due amounts. The single very late payment was an unfortunate circumstance relating in part to the transfer of ownership from Lucent to Avaya. Avaya has now concurred that neither it nor its predecessor company made the payment for 8/1/00-10/31/00, and has promised payment within the month.

While we would prefer to receive each quarterly payment within 30 days, we really do not have mechanisms for collections beyond passing on the collection to the state's contracted collection agency – and that seems to be an overreaction. However, from this point on we will send monthly reminders rather than wait until a full quarter has elapsed.